HOUSEHOLD INCOMES AND HOUSING COSTS: A NEW SQUEEZE FOR AMERICAN FAMILIES

Testimony before the U.S. House of Representatives Committee on Financial Services
By Amy S. Anthony, President
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Good morning, Mr. Chairman and members of the committee, and thank you very much for this opportunity to appear before you to discuss the housing squeeze in our country.

My name is Amy Anthony, and I am President of Preservation of Affordable Housing, Inc., or POAH. My organization, which is based in Boston, is a national non-profit which is focused exactly as our name says, on the preservation of affordable housing. We have been in existence for just over five years, and currently own and manage 3,825 affordable rental homes in eight states and the District of Columbia. The more than 10,000 residents who live in POAH-owned homes generally are low-wage workers and their children, or seniors on fixed incomes, or are disabled—in short, among the most vulnerable of our citizens.

My background includes more than 30 years in the affordable housing industry. I served as Secretary of the Massachusetts Executive Office of Communities and Development, a $600 million Cabinet-level state agency devoted to producing affordable housing and promoting municipal, community, and economic development, from 1983 to 1990. During those years, this state created and implemented innovative, award-winning programs that produced more than 25,000 homes and have served for decades as models for other states. I was part of the 1987 National Housing Task Force, the recommendations of which evolved into landmark housing legislation, including the HOME Program. I served on Fannie Mae's Housing Impact Advisory Council, the Freddie Mac Affordable Housing Advisory Committee and the Boards of the National Equity Fund, the Metropolitan Boston Housing Partnership, and the Women's Institute for Housing and Economic Development. So I come to this discussion with a wide-ranging perspective on the problem, the challenges and the opportunities.

You are hearing this morning from a number of highly skilled professionals in the housing industry. Professor Bluestone's research on work force housing is highly regarded. Undersecretary Brooks brings the perspective of this issue as it cuts across all of Massachusetts, but her previous position with one of the largest national financial intermediaries in the community development arena adds another dimension to her knowledge and her understanding. Mr. Dubuque has been operating an important regional housing provider in southeastern Massachusetts for several decades, and Mr. Baker, once a Cabinet official in Massachusetts, now represents one of the Commonwealth's largest employers. Each of them will reference both experience and research to confirm the premise of your hearing this morning: that American families at all income levels are being squeezed by the cost of housing. There is no need for me to reiterate what my colleagues will tell you about the breadth and depth of this issue, and its implications for our state and our country.

Instead, I would like to use this platform to direct your attention to the very specific and urgent reality of one facet of the affordable housing dilemma, which is the imperative need to protect and preserve the stock of already built affordable housing. I am specifically referring to existing, privately-held rental housing, apartments which have deep public subsidy to make them affordable to renter households earning $16,000 or less. This category of housing is disappearing with alarming speed every day in every state in the country. It is lost in strong markets to upscale conversion, high end rentals and condominiums. It is lost in weak markets to neglect, deterioration and eventually demolition. However we lose this precious resource, the pressures ripple across the housing spectrum and squeeze the entire system even tighter.

Our colleagues at the National Housing Trust say that safeguarding existing affordable housing is the essential first step in solving the nations' housing dilemma. But not everyone who is thinking about the affordable housing challenge is thinking about the need to preserve what already exists. Recently, a group of policy advisors from across the industry, gathered together as part of the MacArthur Foundation's *Window of Opportunity* challenge to preserve affordable housing, agreed that, "there is almost no general perception of the systematic nature and magnitude of the ongoing loss of affordable rental housing." I would like to talk with you this morning about the preservation opportunity, its human face, the policy arguments that buttress our call for preservation, and the action steps which are available to us today.

Background

In his State of the Union address in 1944, President Franklin Roosevelt asserted the right of every American family to a decent home. The federal government had begun building housing for low income Americans in the 1930's, as part of Roosevelt's New Deal. Over time that model, of "public housing", became discredited, however, and by the late 1950's, the government resolved to use the 'power of the purse' to attract the private sector to build, own and manage rental housing for low income persons. In 1959, Congress created the Section 202 elderly housing program, the first effort to meet that goal. Many other programs have followed, programs so broad and deep that between 1965 and 1990, $60 billion in federal funding was invested to create affordable homes for families, the disabled and the elderly.

These homes were built in big cities, small towns and rural areas across the country. They were multi-story high-rises and single family bungalows. But all were built according to the same premise: that the government would provide funds to underwrite construction and operating costs, and in return, owners would promise that rents would be affordable to low income families and seniors on fixed incomes for the duration of the fixed financing period.

Now more than four decades have passed, and the financial notes which built this housing are reaching "paid in full" status. With the expiration of each financing agreement, the leverage for keeping rents affordable is lost. Our enormous national investment in affordable housing is maturing and, in many cases, vanishing.

At the same time, new federal resources providing deep rental subsidies and other financial support to this population are a shadow of our prior investment. This committee knows full well the year-over-year assault on the HUD budget. You, Mr. Chairman, have consistently cautioned your colleagues and the Administration on the long-term effects these budget decisions are having on the supply of affordable housing, the broader economics of our communities, and the daily realities of our most defenseless citizens. The HUD budget for the current fiscal year is only 9% larger than the agency's fiscal '04 budget. During those same years, the rate of inflation was 9.3%. Obviously, HUD's financial capacity is eroding significantly.

According to the Harvard University Joint Center for Housing Studies, in the decade from 1993 to 2003, 1.2 million affordable rental homes were lost from inventory. For every two affordable units lost, on average only one new unit is built, and as a result, the same Joint Center study asserts, there are now 5.4 million more low income households than there are affordable apartments available.

Quoting another source, The Center for Housing Policy at the National Housing Conference says that in 2003, five million American families spent half or more of their total available income on housing. We describe that in the affordable housing business as a housing burden, but those families no doubt find it more like a nightmare.

The New England Public Policy Center of the Federal Reserve Bank of Boston has been engaged in a comprehensive analysis of the lack of affordable housing, asking how big a problem is it, why is it growing, and what are we doing? Its *Policy Brief 07-2*, just issued, asserts that in 2006 there were 2.2 very low income households for every one affordable rental unit in New England. For many of our poor and even our moderate income families and elders, truly affordable housing has become a cruel lottery serving only the lucky few whose names pop up on waiting lists which are routinely four and more years in length.

While we expect the scale of any social challenge to be significantly larger in New York, two specific recent sales there are startling nonetheless. When the Metropolitan Life

Insurance Company sold Stuyvesant Town and Peter Cooper Village last September, 11,200 affordable units were lost. Just last month, the owners of Starrett City Homes endeavored to sell another 5,800 units, a sale which is currently on hold pending further HUD action. But if that second transaction moves forward, these two sales alone will have removed 17,000 affordable homes—apartments which are home to nearly 40,000 Americans—from inventory.

In short, we are rapidly losing the apartments that house our most vulnerable seniors, low wage workers and disabled citizens. Incomes have not kept pace with the cost of housing, and the market cannot correct for the imbalance. There is virtually no public subsidy available to entice the private market to build enough affordable housing to address the scale of need, and there are few communities interested in accepting new, large-scale affordable developments.

The Human Face

When the discussion is of work force housing, the focus may be on young engineers or scientists or physicians who find housing in markets like Massachusetts to be daunting. But this concern is really far broader: we should be mindful that without maintenance staff, data entry clerks and nursing aides, neither our laboratories nor our financial institutions nor our hospitals will function.

The housing squeeze for those low wage workers is dramatic. *Out of Reach 2006*, the National Low Income Housing Coalition's respected annual report on the cost of housing across the country, paints this stark picture:

> "Today there is not a county in the country where a full-time minimum wage worker can afford even a one bedroom apartment at the fair market rent. On average, nationwide, even a household of three workers earning the federal minimum wage and working 40 hours per week, 52 weeks per year, could not afford a two bedroom unit at the national fair market rent."

POAH's experience with the residents of Crestview Village in Kankakee, Illinois, underscores this reality. Crestview was built in 1968 under the federal Section 236 program, and converted to a federal Section 8 property in 1986. Two decades later, it was one of the most troubled developments in Illinois, known as a haven for crime and drugs. It was kindly called "troubled" housing. More accurately, it was like a tanker headed for the rocks. It was unkempt. It wasn't very secure. Doors were missing. The potholes in the parking lot were bigger than most of the cars.

HUD determined that Crestview should be foreclosed, and in preparation provided rental vouchers to the residents so that they could relocate to a better place. But after 18 months, fewer than one-third of the Crestview families had been able to find alternative homes that they could afford, voucher or not. The compelling dynamic that made preserving Crestview so important is that most of the families living there really had nowhere else to go.

I am delighted to be able to report to you that the story at Crestview is now an entirely different one. The apartments are fully renovated, and fully rented. The residents have created an association to work together, with us and with local officials, including the police, to protect the homes of which they are now so proud. And the city has rallied in quite a remarkable way. The Mayor's office and the daily newspaper in Kankakee were well into a plan to provide wireless internet access throughout the city, but the original footprint of their plan specifically excluded Crestview, a development located quite far west and on the other side of Interstate 57. As a result of the new enthusiasm about Crestview Village, however, the wireless access plan was redrawn to include the development, bringing the benefits of 21st century technology to those families, as well.

Bringing the story back locally, I would tell you about Meadowbrook Apartments in Northampton, a development which Mayor Clare Higgins was determined to preserve for its very low income residents. Mayor Higgins fought for three years to pressure the owner of Meadowbrook to abandon his plans for condo conversion. She knew well that the 222 low income families at the development would have few options available if their homes were lost. The residents, in fact, were her great allies, creating the "Save Our Homes Tenants Association" and picketing, leafleting and speaking out for their own cause. POAH's successful purchase of Meadowbrook was only possible with state funds allocated especially for preservation, and again the story that we can tell you is a good one. Those homes have been preserved, the families who reside there are working hard to build a safe and supportive community, tapping resources from the city, from the schools and from Smith College.

A similar story took place in Salem, Massachusetts, where POAH purchased the 235-unit Salem Heights development in 2003. That one property constituted 10% of the affordable housing stock of the city, where there had been no new affordable housing produced at all over the prior decade. During those same ten years, 495 previously rental units were converted to condominiums. The contrast between preservation and new construction at Salem Heights is dramatic: $6,100 per unit of soft funding was required to preserve and rehabilitate the project, compared to an average of $120,000 per unit of soft funding for new affordable housing construction in the Boston area.

Crestview, Meadowbrook and Salem Heights are homes to families. The other group facing this dramatic need is the elderly, many of whom are widows on fixed incomes, mostly Social Security or small pensions. For them, and for our society, the picture is also dreadful. Boston's respected Pine Street Inn reports that across Massachusetts, elders represent the fastest growing population in the shelter system. From 1999 to 2002, elderly homelessness in Massachusetts increased over 60%. As many as 2,000 seniors seek emergency shelter nightly, and Pine Street's own intake workers have seen a dramatic rise in the demand from elders seeking shelter. One out of every five people in Massachusetts lives beneath the poverty line, and an estimated 50% of those are homeless.

POAH was recently offered the opportunity to buy a portfolio of properties here in Massachusetts which house 541 elderly residents. In every case, as our staff has held information meetings with the residents, their only real concern is whether they will be able to keep and afford their homes. Their reaction, universally, has been one of relief as they learn that the answers to both questions is yes.

Why preserve this housing?

There is no question of the need for this housing. Nor is there any doubt about the declining supply. But what are the broader implications of this loss? What does it mean for our communities? What does it mean for our country?

Preservation of Affordable Housing, Inc.

Decent, safe, affordable housing is part of our self-definition as Americans. We believe that no one should be homeless, and we understand fundamentally that a stable home contributes to healthy children, healthy families and healthy communities. Nevertheless, we simply don’t have enough housing affordable to those at the lowest rungs of the economic ladder.

Preservation is responsible. It is good stewardship. It is environmentally friendly. It wastes less, and conserves more. Preservation recognizes that these properties—the buildings, the land, the homes—represent an essential resource that should not be thrown away thoughtlessly. Billions of taxpayer dollars were invested in to create and sustain these homes, and there is a fiduciary responsibility to their care. Losing these homes diminishes supply, drives up demand, raises prices and further divides the housed from the unhoused. Losing these homes to a lack of will or foresight is the worst kind of waste.

Preservation is also realistic. In many communities here and around the country, housing that was built 20 or 30 years ago is unlikely to be duplicated. Most new affordable housing production is—for both zoning and financial reasons—on a significantly smaller scale than what was built previously. So it is not only that we are losing 150-unit, deeply affordable housing developments and replacing them with 40-unit tax credit developments—although that is the case. It is also emphatically that we are losing 150-unit development in communities with economic opportunities—like Northampton or Salem—and replacing them with 40-unit developments in communities with very little economic opportunity, where tax credit developments are most economically feasible and more easily sited. That is the tide of resource allocation that preservation seeks to stem.

The other compelling reason to preserve and improve existing affordable homes is basic common sense: preservation costs less. In 2003, the MacArthur Foundation launched a $75 million national initiative called *Window of Opportunity*. Through this program, the Foundation has provided low-cost loans and grants to preservation owners across the country, including my own organization, POAH. Already, MacArthur's program has helped preserve and improve 36,000 affordable rental homes throughout the country. The average cost has been $73,000 each, or about half the amount to build a new rental unit anywhere in the U.S. today.

POAH's experience in high cost markets like Massachusetts is that new construction can be as much as three to five times the cost of preservation. In Northampton, for example, we purchased the Meadowbrook property in 2004. In the ten years prior, there had been exactly 10 affordable homes built in Northampton, so our single transaction saved more than twenty times that number. Moreover, we spent about $30,000 of public subsidy to upgrade each unit, while similar per unit new construction was averaging $80,000 to $100,000. I'm sure you will agree that's quite a bargain.

Housing makes a difference: a growing body of research confirms that persons in stable homes are more successful in their work, their schooling, their life choices. Stable, healthy communities are broad and diverse. They have room for families at all income levels. They honor their elders who seek to 'age in place'. At the heart of stable communities are stable homes and stable families. Low wage workers, families of modest means, elders and the disabled on fixed incomes must live somewhere. If this housing is lost, where will they go? What will be the added cost to our hospitals, our emergency care system, our prisons?

There Are Remedies

In the face of this urgent need, there are small pockets of exciting developments. I mentioned earlier the preservation funding from the MacArthur Foundation, which is poised, based on its success to date, to expand its *Window of Opportunity* program this year. More than 40 states have also taken action in support of preservation. The Kankakee property I mentioned earlier was saved in part through a "donation tax credit" which the Illinois legislature created from a model pioneered by the state of Missouri. New York and other cities have negotiated agreements with HUD giving them right of first refusal before non-performing properties are put up for sale at open auction. Other local governments—not just big cities—have also recognized the importance of saving housing which serves very low income families and elders. We have worked closely, for example, with town leaders in tiny Narragansett, Rhode Island, population 16,361, to preserve 160 homes, all located on parcels near the ocean which would have been exceptionally attractive to private developers for luxury apartments or condominiums.

These are important, but modest, steps against a rapidly rising tide. There is so much more which all levels of government can do, but especially the federal government. And while all of us here today can identify where more federal dollars would help, money is not the single solution. First, there must be the will and the determination to act, and to act quickly. We need visionary public policy which recognizes the vulnerability of this asset, and commits to its protection. We need investment incentives and regulatory improvements. And we need predictable resources, both dollars and policies, to engage all parties in the outcome.

Some specific examples for the Committee's consideration might include:

Predictable policies, in effect nationwide, to encourage preservation. By program design, 1.7 million of the apartments that need to be preserved are privately owned. They were created by a partnership between HUD and private developers, for-profit and non-profit alike, a partnership in which HUD set clear rules and provided clear incentives. For that same housing to be preserved for future generations, HUD will again need clarity of message and committed partners with effective incentives.

Current programs and regulations are fragmented, cumbersome and inconsistent. They vary among local, state and federal agencies, sometimes even within the same agency. Varying interpretations of rules and policy among various HUD offices around the country are discouraging to potential preservation owners, and work against any collective sense of resolve or accomplishment. In our own experience, a simple matter like the "non-profit transfer rule", certainly intended by Congress to encourage preservation purchases, has required long negotiation with HUD on a deal-by-deal basis. During the months of each such discussion, an anxious buyer and a seller eager to convert the housing to high-rent apartments or condominiums can meet in the open market, seal their transaction and remove rent protection.

POAH and other strong, sustainable national nonprofits, with support from the MacArthur Foundation and others, four years ago formed Stewards of Affordable Housing for the Future (SAHF), a consortium focused on enabling the member to make a bigger difference in the preservation field. Other groups have taken a similar approach to gathering the expertise and the will of capable regional and local non-profits. The extraordinary investment we and our colleagues have made must be matched by a commitment from HUD in the form of clear and supportive policies.

While there have been signs of a ‘can-do’ attitude from HUD, specifically from its Office of Assisted Housing Preservation, more often HUD is merely calling balls and strikes, and even then from an unclear rule book. As a result, too many of our suggestions today seek to correct passive HUD behavior, which fails to understand the urgency or to express the priority we feel preservation demands.

Financial incentives and tax policies to encourage owners to preserve long-term affordability. There are many regulatory and policy impediments to transferring ownership of subsidized affordable housing to owners like POAH which pledge long-term affordability. Exit tax relief would be a good incentive for the right disposition by existing owners. Streamlining TPA and 2530 processes would remove delay and uncertainty from a preservation sale, allowing us to better compete with the efficiencies of market transactions.

Recognition that the first priority is preserving affordable housing, not replenishment of the HUD treasury. HUD regulations restricting a non-profit owner from using certain proceeds of transactions or operations for the improvement of the property or of the organization’s mission should be withdrawn. Cumulatively, these represent enormous resources that non-profits can make available to be reinvested in affordable housing. The current economic pressures on HUD are extraordinary—all the less reason that they should be overlooking the low-hanging fruit of potential funds that can be used to further HUD’s mission, at no cost to HUD.

Similarly, HUD policies requiring non-profit buyers to repay subordinate debt—often using state subsidy dollars—should be rescinded. The nation needs strong non-profit owners which are committed and able to sustain both the housing that they operate and their own organizations, as well. Access to resources is key to their strength and long-term health. While HUD certainly retains a duty to shepherd federal resources wisely, where a state has committed resources to a developments preservation, HUD should not be standing at the table with its hand out; rather, it should be welcoming the state's participation, not only for its economic assistance, but for its implicit confirmation that housing is an asset for the community and for the state.

A commitment to project-based rent subsidies. HUD and the Administration have historically sought to phase out project-based subsidies in favor of vouchers for tenants. When rent vouchers are portable, tenants may have the opportunity to find alternative housing, although in tight markets voucher holders often simply cannot. Even where they do, however, the long-term affordability of their current home is lost. One generation of turnover in a building which converts from project-based subsidy to tenant voucher subsidy eliminates that entire building from the affordable stock. Forever.

In terms of legislation, I also want to support specifically:

--the enactment of the Mark-to-Market program amendments, which failed to pass with its renewal earlier this year, with specific 'refresher' language empowering non-profit preservation purchasers;

--the proposal that project-based Section 8 contracts remain in force on foreclosed properties;

--perfecting amendments to make workable Congress's efforts to allow transfer of Section 8 project-based subsidies to other sites;

--re-establishing the right of owners to convert Rent Supplement and RAP subsidies to project-based Section 8 assistance, so that the affordability of those properties can be preserved beyond mortgage maturity;

--authorization to allow Section 8 moderate rehabilitation properties to benefit from Low Income Housing Tax Credits, and

--allowing enhanced vouchers to be project-based when a refinancing is undertaken in order to preserve the property.

Preserving affordable housing is what we at POAH do. It's what we believe in. We believe in it because it's necessary, it's sensible, and it makes a difference in people's lives. We are joined in this work by national, regional and local colleague organizations, by state and local government, by foundations and private lenders. We look forward to a day when we will again have the federal government as an active partner and a supporter. We are grateful to this Committee for your work in bringing that day closer, and we look forward to many opportunities to work with you to that end in the weeks and months ahead.

Thank you again for the opportunity to be heard this morning on this very important matter.